

Letter of Transmittal  
December 28, 2009

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted herewith is the 2010 Annual Budget for the City of Franklin that was adopted by the Common Council on November 17, 2009.

### Introduction

The budget process began with the preparation of a budget forecast. The forecast calculated 2010 costs based on a set of cost assumptions and applied those to the 2009 approved work program. The departments were then requested to provide their input on personnel needs, capital outlay needs, equipment replacement needs, street improvement needs, capital improvement needs and related debt service needs for the year 2010 and following years. That information plus the forecast was provided to the Mayor.

The Mayor and staff reviewed the forecast, discussed with departments requesting new personnel and determined what personnel, capital outlays, equipment replacement, street improvement, capital improvement and related debt service needs would be included in the 2010 Department/Requested Budget. That information was communicated to the departments. The departments then prepared their Departmental budget requests and submitted them to the Director of Finance & Treasurer for compilation. The Mayor consulted with the Director of Administration and Director of Finance & Treasurer, discussed with Department Heads and made adjustments in putting together the 2010 Mayor's Recommended budget. That document was reviewed by the Finance Committee and then the Common Council. The 2010 Budget was adopted after a public hearing was held. Then on December 3rd after an equalization issue was discovered the Common Council approved an amendment to the 2010 budget reducing the Tax levy by \$300,000 to reduce the tax rate slightly below the tax rate originally approved. That amendment is being included as part of the adopted budget presented in this report.

The budget document consists of three sections. Summary information providing an overview of the City budgets including assessed valuation, tax levy and tax rate information. Operating and Capital budget summaries follow for the Library, Sewer, Water Utility, Capital Projects Funds, Debt Service Fund and Tax Incremental Financing Districts. Detail departmental budgets for the City of Franklin General Fund department are then presented.

### Budget Summary

The Adopted budget recognizes the realities of current economic climate and attempts to balance that with maintaining existing services to the residents at a time that other revenue to the City has declined by almost one million dollars. The Mayor recommended that the City tighten its financial belt in the same manner that residents do. The Mayor recognized that the people of Franklin expect their government to be as fiscally prudent as possible during an unprecedented time.

The dramatic drop-off in residential and commercial development coupled with the credit crisis that began in September of 2008 had significant impact on the finances of the City of Franklin. Revenue has not kept pace with regular expenditures. The largest declines were \$400,000 in interest revenue, \$330,000 in ambulance revenue and \$364,000 in development related revenues. The Mayor recommended a budget to maintain the City's fiscal integrity while limiting the tax increase to residents. Actions included denying City departmental requests for \$362,000 in new manpower positions.

The goal was to maintain services whenever possible. The necessity to reduce a 2010 shortfall projected to be as much as \$1.4 million required a series of actions. The Mayor froze hiring in April of this year. No new positions were authorized in the 2010 recommended budget. In addition the following positions were not recommended to be funded in 2010 or until such time when the economy or the City of Franklin financial picture improves significantly:

For 2010 the Mayor recommended a budget that reduces expenditures to 99.1% of the 2009 budget, despite certain obligated cost increases and general inflationary forces. The recommended budget strived to maintain services whenever possible. Not only were no new positions authorized in the 2010 recommended budget, the Mayor recommended that the following vacant positions not be funded in 2010 or until such time when the economy or the City of Franklin financial picture improves significantly:

- Two Police Officers
- Firefighter
- Highway worker
- Municipal Buildings - custodian

In addition to personnel reductions listed above the following is recommended:

- Freeze the tax levy to the Library, Capital Outlay, Equipment Revolving, and Debt Service Funds at the prior year amount and reduce the Street Improvement tax levy.
- Use the entire amount of tax levy increase generated in the General Fund to help with the issues facing that fund.
- Accept the operating reductions offered by the departments
- Reduce the capital outlay requests of departments with most held at or below the prior year's level.
- Reduce the tax levy support for the Civic Celebrations and St. Martin's Fair Commissions in order to transition the events to self funded activities.
- Established a 2010 budget based on attainable revenue projections.

The recommended budget also identified that despite the actions taken in 2009, reducing the estimated shortfall by \$1,755,000, there remained an estimated \$700,000 shortfall for 2009. The Finance Committee reviewed the shortfall and recommended to the Common Council that the shortfall be taken from the fund balance of the General Fund providing that the 2010 budget has revenue and expenditures substantially in balance. It is also worth noting that, despite the anticipated use of fund balance during 2009, the City's fund balance in the General Fund is expected to remain within its targeted threshold of 20% to 25%.

The Finance Committee reviewed the Mayor's recommended 2010 budget, met with departments and submitted a proposed 2010 budget as is its responsibility that was similar to the recommended budget. The Common Council reduced the tax levy of the proposed budget by \$300,000 through postponement of the City Hall and Fire Department parking lot repairs and a reduction in street improvement funds. Concern about the potential of reduced service levels for public safety resulted in the restoration of partial year funding for a police and fire department position and an increase in the contingency for possible use for a second police officer position by asking that departments find additional reductions in the budgets they submitted and by under spending those budgets in 2010.

Highlights of the adopted budget include the following:

- The City tax rate of \$5.85 is an increase of \$.02 or an increase of 0.30% from the prior year. In addition there was an \$.08 equalization adjustment that increased the tax rate on the tax bills to \$5.93.
- Leaving the vacant positions unfunded will create challenges for the affected departments. Based upon meetings with the departments, significant reduction in service levels are not anticipated. Retaining such service levels in each instance may require a closer analysis of departmental activities, performance, and operational activities. After that review, if alternative actions are not identified, there may be selective reductions in services provided or in some cases increased response times.
- The reduction in available revenue makes it difficult to continue tax levy support to two desirable discretionary services (Civic Celebrations/Fourth of July and St. Martin's Fair). The tax levy support is being reduced by 50% in 2010 with the preliminary intent to eliminate such property tax levy support in 2011. Each of these Commissions is asked to study, over a 90 day period, the impact of these reductions and to report back to the Mayor in early January and to the Council by February the potential impact of the reduction in tax levy support on these events. The report needs to include a forecast for the 2010 activities and the long term impact of this change in funding strategy. Additionally, the Commissions should anticipate a change to the recent broader contracting authority that has been delegated annually by the Common Council, such that greater operational oversight by the Mayor, Director of Administration, and Common Council can occur to ensure compliance with the plan and progress toward financial independence.

- The St. Martin's Fair recordkeeping is being changed in 2010 with the establishment of a Special Revenue Fund to record the revenue received and expenditures made for this activity separately from the General Fund, as is currently done for the Civic Celebrations Commission. In this way the fund will have the ability to retain excess funding, if any, for the following year's event.
- The emerald ash borer was recently discovered in Franklin. While the various groups begin to plan the City's response to this issue, the landscaping trees budget is being increased to allow the City to apply for a matching grant that together with City funding will increase the resources available, from \$11,000 to \$50,000 if the full grant is received, to manage an initial response to the emerald ash borer and to replace City trees.
- The Library tax levy was held at the same level for a second year. The Library has done a good job living within their available resources and should be commended for the proactive fiscal actions taken to control 2009 expenditures. The Library can succeed with stable tax levy funding in 2010 largely due to reciprocal borrowing, funding received through Milwaukee County. Potential revisions to this agreement may cause those amounts to be reduced in the future. In such an event, the City will need to re-examine property tax levy support to ensure that the Library has sufficient baseline revenues to support the Library's core functions and the service levels upon which the citizens of Franklin have come to rely.
- The three-year garbage contract expires in 2009. The bids for the next 3 or 5 year contract have been received and are in line with the cost in the existing contract. There was concern that if the new contract contained a substantial increase the City's only option would have been to remove the garbage cost from property tax levy support and to bill those receiving this service. That is not necessary at this time.
- The Mayor intends to establish a work group consisting of representatives from Parks, Public Works, Finance, Administration and a public representative to study the recreational possibilities inherent in the Crystal Ridge area and to work with him to determine if it is feasible at this time to include this area into the Franklin Park plans. This action would also require cooperative discussions with Milwaukee County, the current owner of the facility.

The adopted 2010 budget continues to reflect adjustment to these unprecedented economic times. It does so largely by restraining growth in expenditures. It does not hold the citizens of Franklin responsible to replace lost revenue through substantially increased taxes. The recognition is that the Citizens of Franklin are experiencing the same, if not more, economic forces and subject to similar fiscal influences as the City. As citizens are forced to cut back at home, so too the City must do so in its operations. The adopted 2010 budget responds by reducing City expenditures through various measures, including not authorizing any new positions, not hiring, where possible, new full-time staff to fill vacant positions, reducing or holding the line on current operating expenditures, and holding the change in property taxes experienced by the average taxpayer to below normal inflationary forces.

### Tax Levy and Tax Rate

The Adopted Budget results in a City tax rate of \$5.85 per \$1,000 of assessed value compared to last year's City tax rate of \$5.83 per \$1,000. The percentage increase in City tax rate is 0.30%. In addition there was an \$.08 equalization adjustment that increased the tax rate on the tax bills to \$5.93.

The City tax rate is the result of the tax levy required to finance the activity in all funds divided by assessed value of the City. The prior year City tax rate multiplied by the new construction value provides the amount of growth tax levy and that is estimated at \$222,783, and again this year is down 23% from the prior year.

The following breakdown by fund reflects the tax levy requests by fund.

<u>City of Franklin</u>				
<u>Tax Levy Information</u>				
<b>City Tax Rate Components</b>	2010 Budget Tax Levy	2009 Budget Tax Levy	2010 Budget Tax Rate	2009 Budget Tax Rate
Capital Outlay	475,000	475,000	0.1360816	0.1375868
Equipment Replacement	277,000	277,000	0.0793571	0.0802348
Street Improvement	500,000	800,000	0.1432438	0.2317251
Debt Service	1,900,000	1,900,000	0.5443266	0.5503472
Subtotal	3,152,000	3,452,000	0.9030092	0.9998939
Library Program	1,150,000	1,150,000	0.3294608	0.3331049
General Fund Program	16,124,000	15,540,000	4.6193273	4.5012606
Total	20,426,000	20,142,000	5.8517973	5.8342593
Prior Year Levy	(20,142,000)	(19,555,000)		
Increase in Tax Levy	284,000	587,000		

### Equalized and Assessed Valuation

The equalized (estimated assessed valuation) of all property from new development as computed by the Department of Revenue increased by \$14,255,300 or 0.4% to \$3,912,642,300. The year 2009 is not a reassessment year. The assessed value, exclusive of the TID value, increased from \$3,452,366,240 to \$3,490,551,540 or a 1.1% increase.

### General Fund

The General Fund is one section of the City's overall budget. It is the largest segment of the City's total budget and includes the operating expenditures of City departments.

The expenditure budget for 2010 of \$24,207,000 is a 0.9% decrease from the 2009 budget. The budget includes no new staff positions and eliminates funding for three full time vacant positions and takes other actions to reduce spending, as detailed in this report. The recommended expenditures are the requests of the departments adjusted by the Mayor, Finance Committee and the Common Council.

The actual expenditures for 2008 were \$23,905,601, which under expended that budget by \$959,399 or 3.9% with \$676,000 of that amount anticipated. Some of the under expenditures were the result of vacant positions and by contingency budgeted but not used during the year. The budget for 2009 of \$23,847,000 was a 1.0% increase over the 2008 budget. The current estimate to be expended in 2009 is 23,647,222, 3.2% less than budgeted. The decrease from budget in this year's estimate is primarily caused by vacancies in positions, less group health & dental costs, spending restraint by departments and a contingency budget that will not be expended. The budget did plan for unspent funds so as to not tax for all of the budgeted spending.

The current presentation of the budget has changed slightly. In prior years the estimate of unspent funds was shown as a transfer from fund balance. It is now being shown as a anticipated underexpenditure. This is reflected in the general government section of the General Fund report but is an estimate for all expenditure functions. This presentation format makes the comparisons between budget and actual years more meaningful.

The actual General Fund tax levy revenue for 2008 was \$14,632,151. Tax levy revenue for 2009 was budgeted at \$15,540,000. The recommended General Fund tax levy revenue for 2010 is \$16,124,000. Freezing or reducing the tax levy in other funds enabled the total tax levy to be a 1.4% increase.

All other revenue received for 2008 was \$8,883,009 compared to a 2009 budget of \$8,476,000, an expected 4.6% decrease. The projection for all other revenue for 2009 is \$7,427,000, a \$1,049,000 or a 13.4% decrease from the 2009 budget. In 2010 all other revenue budgeted is \$7,683,000 a 9.4% decrease from the 2009 budget but a 3.5% increase from the 2009 estimate. The major reasons for the decrease in all other revenue in 2009 was the reduction: in interest revenue (\$400,000), in ambulance fees (\$330,000) and in permit fees (\$220,000).

#### OPEB (Other Post Employment Benefits)

Effective January 1, 2008 Council adopted OPEB accounting treatment (GASB 45 a governmental accounting standard) that reflects the cost of retiree health benefits over the working lives of the employees. At that time \$949,000 of fund balance in the General Fund was committed for the transition to this new standard. Through 2009 \$798,500 of that amount has been used and the remainder will be needed in the 2010 year. Based upon the 2010 actuarial report it would appear that no additional fund balance will be needed to fully fund this transition.

The budgeting philosophy remains that departments are to budget at an estimate of an average year's exposure with the understanding that the departments will be able to request additional appropriations from contingency or fund balance in a year in which there are unique circumstances or above average departmental needs for items such as overtime costs, salt purchases, fuel or claims against the City.

#### Library Fund

The Library is requesting expenditure funding of \$1,273,176, a decrease of \$484 in support of Library activities at least partially due to not receiving an increase in their tax levy funding. Their spending level is supported by tax levy of \$1,150,000, the same amount as 2008 and 2009, and plan to use of some of the Library's existing fund balance to support 2010 activities.

#### Sanitary Sewer Fund

The Sewer Fund receives its revenue from user fees and interest income. Its expenditures are to MMSD, salaries, benefits, capital assets and other costs of maintaining and improving the sanitary sewer system. The Fund balance in this fund has been reduced over a period of years. In 2009 MMSD had the second part of a significant sewer rate increase (about 12%). Sewer rates were proportionally increased to cover the increase and meet local operating costs of the fund. MMSD has indicated the need for an increase of about 2% in 2010 charges to cover on going costs. The Sewer Fund rates for 2009 will need to recover this increase in their rates.

#### Water Utility

The approving body for the Water Utility is the Franklin Board of Water Commissioners. Because of that fact, the information included in the City of Franklin Annual Budget Book relative to the Water Utility is not included in the City of Franklin summary information. The Water Utility did not increase rates in 2009 but has had a 4.1% increase in overall rates in 2010 approved by the Public Service Commission. In adopting conservation rate schedules, the average residential customer's increase will be about 1%.

#### Capital Outlay Fund

Departmental requests for capital outlays in 2010 totaled \$984,257 compared to \$1,086,392 in 2009. The departmental requests were reduced by \$441,128 leaving \$543,129 that compares to the \$559,686 in 2009. The related tax levy remained flat for 2010. Additional funding will be necessary for this fund to meet the ongoing need of the departments in future years.

#### Equipment Revolving Fund

The Equipment Revolving Fund provides for the replacement of various types of motorized equipment. New equipment is purchased by other funds. Replacement equipment purchased is placed on a depreciation schedule in the year acquired.

Replacement is made based upon the estimated useful life of the equipment. Funding from the tax levy should approximate the annual depreciation of the replacement value attributed to the city's total fleet based on estimated useful life.

The 2009 funding was 49% of the goal. The tax levy budgeted for 2010 was \$277,000 the same as the 2009 tax levy. That represents 53% of the desired 2010 tax levy indicated by the fund policy. Replacement expenditures of \$510,000 have been requested for 2010 from this fund.

#### Street Improvement Fund

The Street Improvement Program is a separate capital projects fund to give visibility to street improvement activities. Many of the City of Franklin streets were reconstructed at the time sewer was installed in various parts of the City 25 to 30 years ago. Many streets need to be resurfaced in the coming years. Tax Levy support was reduced to \$500,000 in 2010 after being reduced in 2009 to \$800,000 from \$950,000 in the prior year. Due to favorable asphalt prices an additional \$587,000 in resurfacing projects were completed in 2009 utilizing the resources in the street improvement fund balance. A proposed five year street improvement program is included in the materials. The primary 2010 project has been awarded state stimulus funding. Due to this good fortune \$205,000 of the planned spending is being transferred to the Capital Improvement Fund to be used to fund capital projects that would otherwise require borrowed funding to complete. The remaining funding is intended for the Oakwood Road project with the understanding that the project may have to be delayed until 2011 until TIF #4 can borrow additional internally generated funds to complete the companion water project. Longer term the available revenues are insufficient to fund the projects scheduled to be implemented in the time frames projected.

#### Capital Improvement Fund

The Capital Improvement Plan is used to project public improvement needs for the coming years. The Capital Improvement Fund uses this five year forecast for planning purposes. Items contained in the Capital Improvement Fund are financed with existing resources, resources from other funds and from the issuance of debt. There are no major items in the 2010 budget as this fund has no appreciable fund balance. The few projects that are projected are included because of a transfer of funds from the Street Improvement Fund.

A 2010 budget for the Capital Improvement Fund is prepared each year as the first year of a five-year forecast. The 2010 forecast amount will be the amount presented for Common Council for budget approval. Projects that have Common Council approval will receive specific budget itemization. For those projects that have not yet had Common Council review and approval an unallocated total appropriation is requested.



#### Debt Service Fund

The City's plan is to issue Debt every other year in support of its capital activities. The last debt issuance in support of capital activities was in 2008. The City forecasts future debt issuance of \$2.0 million every other year to support public improvement projects. In response to the economic slowdown the forecast 2010 debt offering has been postponed at least until 2011. Where necessary borrowing needs arise they will be met by internal borrowing. However this source is limited due to the internal borrowing related to the 2008 debt repayment and the general economic situation.

#### Conclusion

Last year was represented as the "Perfect Storm" as development revenue was down significantly with no quick turnaround in sight. Cost increase pressures were led by increases in fuel, asphalt, insurance, electricity and natural gas costs. If that was the case then in 2009 we never got out of the path of the tornado! The components were different and explained earlier, however, the result was similar. The City of Franklin Fund Balance will be reduced by about \$700,000 by the end of 2009. Combining the factors resulted in a 2010 forecast of \$1,362,000 that could not be supported by anticipated revenue. Tax levies of the other funds were frozen at the prior year level or reduced. Two full time positions were not funded for 2010. Budget reductions were made in all departments of the City resulting in a General Fund expenditure budget that decreased by 0.9% and an all continuing funds budgets decreased by 9.7%.

Combined capital spending is slightly lower than the prior year. The Capital Outlay Fund and the Equipment Revolving Fund was funded with the same tax levy as the prior year. The Street Improvement Fund tax levy was reduced from the prior year. The Capital Improvement budget is funded at a minimum level and Debt service tax levy has been funded with the same tax levy as the prior year.

In spite of many challenges, the 2010 budget restricts expenditure increases with a tax levy increase of 1.4%, a tax rate increase of 0.3% and a General Fund expenditure decrease of 0.9%.

Respectfully submitted,



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